

Pawning—the Chettiar and the Banking System

The association of the Nattukottai Chettiars with the money lending and banking system of Ceylon dates back to the Dutch period. With the expansion and prosperity of the British empire, the prosperity of the Chettiar community also multiplied. They were engaged in the import and export trade of the island and their main functions were the export of tobacco to India and import of rice from India. It was revealed that by 1934, there were about 556 firms in the island owned by the Nattukottai Chettiars. The majority of these Chettiar firms were situated in Colombo.

Originally the chettiar business was not so big but in later years, they became practically financial magnates, mostly out of the money they made from Ceylonese capitalists who were largely indebted to them at the time. The chettiar business became the only source from which short and long term credit could be obtained. However, with the establishment of a national banking system the chettiars lost their dominant position. With the failure of the chettiar system, a new set of chettiars came into being. They, however, established their trade on a more national level. They have been known as "pawnbrokers" upto now.

The business of pawn-broking, which dates back to a period of about 50 years, was originally introduced to Ceylon by the Chettiar community, who were engaged in borrowing from banks and re-lending on fantastic rates of interest. This business of pawn-broking spread widely all over the island. Even upto the present day the Pettah Sea Street is known to be a fortress of the Pettah jewellers and pawn-brokers. However, with the intervention of the People's Bank the monopoly of the private sector (pawnbroker) has been gradually broken but not entirely extinguished. About 50% of the pawn-broking is still handled by the private sector.

At present, pawn-broking is not limited to the "Chettiar" community. Other communities also have commenced the business of pawn-broking according to the systems introduced by the chettiar. Therefore, the "Chetti System" is not limited to one section of society.

The Situation Now

"We go to the People's Bank or 'Licen Kade' to pawn gold jewellery as a last resort. When we have nothing else to fall back on what we require most at this time is hard cash". This statement of a pawner reveals that, advances against pawned articles are obtained for urgent needs.

The following table recorded after a sample survey, reveals that about 60% of the total advances granted for pawn-broking has been for reasons such as sudden illnesses, deaths, confinements and involvement in litigation etc.

Reasons for Pawning	No. of persons who gave information		%
Deaths	7	14	
Accidents	6	12	
Serious illness	8	16	
Confinements	5	10	
Weddings	3	06	
Litigation	4	08	
Redemption of debts	6	12	
Consumption	6	12	
Others	5	10	
Total	50	100	

Although the number of private pawn-broking centres in Colombo is more than the number of People's Bank branches, the number of persons who came to the bank for pawning advances is gradually increasing. The following table shows that the number of persons who pawned articles with the private pawn-broker is only 8 while twice this amount had come to the bank for assistance. As funds held by the private sector is gradually decreasing, they have limited the amount advanced to a single customer at Rs. 500/- to Rs. 300/-. For example, six private pawning centres at Wellawatte have limited their transactions to Rs. 500/- per person. Only one affluent business man, known by a Sinhala name amongst these six persons has not limited his trans-

actions. Two bank branches compete with 7 pawning centres are situated in the Dematagoda-Kelaniya area. It has also been revealed that illicit pawn-broking is carried on by some persons in this area.

SELECTED SAMPLE—PAWNING FOR ONE DAY

	Private Sector 6 Centres	Bank 2 Branches		%
Pawning ...	49	8	32	16
Redeeming ...	29	5	46	23
Renewal ...	58	10	20	10
Total ...	136	23	98	49

According to information given above, it is revealed that although a higher number of pawning advances have been granted by the private sector, there have been more redemptions in the banking sector. Moreover, a lesser amount of renewals have been recorded by the People's Bank. The main reason for this is the low interest levied. The foremost reasons for lack of renewals in the private sector is the fact that a high amount is advanced at a high rate of interest and the pawner is unable to find sufficient money to redeem the article in a hurry. The private sector businessman advances sums of upto Rs. 200/- to Rs. 300/- per sovereign and the interest due for the first month is always deducted from the advance at the time of granting. As the rate of interest charged is exorbitant (it has been calculated and found that, it is thrice the amount levied by the People's Bank) and the amount advanced is also high, redemption by low income groups is limited. Due to the high rate of interest, renewals are also almost impossible.

The only alternative opened to the pawner is to sell his jewellery at a low cost to the same pawn-broker. (Therefore, these private pawn-brokers are known to be jewellers too). The pawner receives only 1/8th of the real value of the article after the deduction of interest and the amount advanced. An individual who pawns an article worth Rs. 300/- will eventually receive only Rs. 38/- at the end of the transaction.

It is also known that private pawn-brokers do not give adequate notice to their customers to redeem their articles. Reasons such as change of address, or being absent from home at the time, have not been taken into consideration by pawn-brokers. If a letter has not been replied, the private pawn-broker normally concludes that the article belongs to him and he invariably sells it at a higher price, even without informing the pawner. In such an instance, the pawner has very little avenues for legal action. No attempt is made by the private pawn-broker to verify the ownership of the article. Usually no identification is also required. Their main interest lies in the article that is brought to be pawned. Therefore fraudulent persons are often able to pawn stolen jewellery.

The other sector of pawn-brokers are the 'illicit' pawn-broker who does not fall within the category of licensed pawn-brokers. Whilst their transactions have no legal recognition, their funds are also limited to Rs. 500/- to Rs. 1,000 per person. The highest advance given to any person is Rs. 200/- irrespective of the value of the article pawned. No receipts are issued and the article is not examined for its genuineness. Interest levied is not fixed, it varies from person to person or from one transaction to another. However, pawn articles are accepted only from known persons living in the same village. These illicit pawn-brokers charge even a higher rate of interest than the licensed pawn-broker, and the reasons (from a survey) given below indicate why the villagers prefer to go to them for assistance.

1. Their preference to keep the transaction a secret from others.
2. Due to lack of knowledge to approach a licensed pawn-broker or the People's Bank.
3. Due to illiteracy.
4. Due to the urgency of the situation, their preference to seek assistance within the same village.

Pawn-Broking Business of the People's Bank

The private pawn-brokers irregularities and injustices were considerably reduced by the commencement of the business of pawn-broking by the People's Bank in the year 1961. The principal aim of the private pawn-broker was only to maximise his profits. However, the People's Bank on the other hand has wider objectives than the private sector. The People's Bank however has limited the amount advanced per sovereign to Rs. 150/- for several national and individual reasons, mainly that:

If more funds are provided as advances for consumption purposes which are not related to economic development, the quantity of money in circulation within the country will increase. It may even lead to a price inflation. Provision of a limited advance for consumption purposes, will discourage this unnecessary consumption cost pattern.

The upper limit for consumption loans on account of pawning is Rs. 500/- and advances over and above this amount will be granted only for essential purposes. The People's Bank also grants loans for pawn upto Rs. 5,000/- for development purposes such as agriculture, animal husbandry and industry. The private pawn-broker not only interests himself in maximising his profits but always attempts to discourage the pawner from redeeming his article. The interest due for the first month is always deducted from the amount granted. As a result the pawner receives an amount less one month's interest. A charge is levied for receipts issued. No interest is charged by the People's Bank at the time of granting the advance and interest falls due only at the end of one year. A letter is sent to the pawner at the end of one year, notifying him to either renew or redeem his pawned article. If no response is received a registered letter is sent. If no response is re-

ceived on the second letter, another registered letter is sent notifying him of the intention to sell his article by public auction. If at this juncture the pawner is not able to redeem his article, it is sold by public auction, and the proceeds of sale are given to him less the advance, interest and costs of the Bank.

The Bank has afforded many facilities to pawners to redeem their articles. One such instance is to open a Savings Account with an initial deposit of Rs. 10/- and thereafter moneys could be deposited in small amounts throughout the year with a view to redeeming the article, utilising these funds.

Numerous instances have been noted, where pawners have redeemed their articles from private pawn-brokers and have re-pawned with the People's Bank. Even when money has not been required, individuals have pawned articles with the People's Bank for purposes of security. Individuals who hesitated to pawn with the private broker have sought assistance from the People's Bank for those very same reasons. The table below, gives data from a survey on why pawners avoid private brokers.

Reasons for not pawning with the Private Pawn-Broker

Reasons	Percentage of persons who reported
High rate of interest ...	100
Lack of confidence ...	79
Lack of security ...	58
Fear that the article would become the property of the pawnee or will be lost ...	68
Others ...	43

With the commencement of pawn-broking by the People's Bank, the private sector hold on it has declined. At the end of 1972 about 2 lakhs of persons had pawned articles with the Bank but by the end of 1975 this figure went up to almost 5 lakhs. Pawning advances granted by mid 1975 had increased by 400% in comparison to amounts granted in 1973.